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R.J. Reynolds Tobacco Company Makes 2007 Master Settlement Agreement Payment

Winston-Salem, NC – April 16, 2007 – R.J. Reynolds Tobacco Company today satisfied its full \$2.005 billion annual payment obligation for 2007 as specified in the Master Settlement Agreement (MSA).

The MSA is an agreement reached in 1998 among 46 states, the District of Columbia, Puerto Rico and four U.S. territories and the major tobacco companies. As agreed to by all the signatories, a tobacco company is due a credit against its annual payment if the disadvantages imposed by the MSA were a significant factor in the participating manufacturers losing market share to non participating manufacturers (NPM). In February, an independent economic consulting firm hired jointly by the states and the tobacco companies made such a determination with respect to 2004.

According to the MSA, the determination of the independent economic consulting firm is final and an NPM credit is due. The states disagree. As a result, and following the process specified in the MSA, a portion of R.J. Reynolds' payment was deposited into a "disputed payments" account. The approximately \$561.2 million deposited into this special escrow account will remain there pending final resolution of R.J. Reynolds' disputes with the states.

"We have worked hard with the states to reach a negotiated settlement of this difficult matter and to date our efforts have been unsuccessful," says Martin L. Holton III, senior vice president and general counsel for R.J. Reynolds. "Absent being able to reach a negotiated settlement, it's our position that the MSA requires that payment disputes, which this is, be resolved through binding arbitration before a single panel of three former federal judges.

"The states, however, believe payment disputes should be resolved in their individual state courts," Holton adds. "This procedural issue has been the subject of extensive litigation during the past year. To date, 42 of the 43 state courts that have addressed this question have agreed with R.J. Reynolds and ruled the matter should be resolved through binding arbitration."

R.J. Reynolds Tobacco Company has made nearly \$18 billion in MSA payments to the states since the agreement was signed in 1998. In addition, the MSA imposes substantial restrictions on the marketing, advertising and conduct of the participating tobacco companies.

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R.J. Reynolds Tobacco Company, an indirect subsidiary of Reynolds American Inc. (NYSE: RAI), is the second-largest tobacco company in the United States, manufacturing about one of every three cigarettes sold in the country. The company's brands include five of the 10 best-selling U.S. cigarette brands: Camel, Kool, Winston, Salem and Doral. For more information, visit www.RJRT.com.